

The Food Co-op
Port Townsend, WA

November 3, 2003

am writing to comment on Proposed FASB Staff Position No. FAS 150-c. I support deferring the effective date of Statement 150 for mandatorily redeemable financial instruments of nonpublic entities for at least one year. It could take cooperative businesses and other nonpublic entities at least that long to make the changes in their capitalization plans and structures that this pronouncement might force them to make. I request that the Board consider deferring the effective date for these instruments two years to fiscal periods beginning after December 15, 2005.

While the Proposed FASB Staff Position only addressed the effective date for these instruments, I further request that the Board clarify that member equity in a cooperative business is not mandatorily redeemable when the board of directors retains the authority to redeem that equity or not.

Members provide equity capital to the cooperative to finance its business operations, but they recognize that this equity is risk capital. The board of directors of a cooperative may choose to redeem equity to deceased members or others no longer doing business with them in order to keep ownership in the hands of members actively doing business with the cooperative. However, the board of directors has the discretion to redeem or not to redeem it. Courts have affirmed that the board of a cooperative can "exercise the discretion it has been granted to determine when the cooperative is financially able to redeem patronage equity," *Great Rivers Cooperative v. Farmland Industries*, 198 F.3d 685 (1999). The board does not have this discretion for debt owed by the cooperative. When a cooperative finds itself in bankruptcy, all of the creditors are paid before any of the equity held by members is redeemed.

Reclassifying member equity in a cooperative as a liability on its balance sheet could also result in a legal obligation to redeem that equity. The authority of the cooperative's board of directors, now recognized by law, will be compromised and member equity would truly become mandatory obligations of the cooperative.

Should this proposal go into effect as it stands currently, it will definitely have an impact on our business. Please consider clarifying that member equity in a cooperative business is not mandatorily redeemable when the board of directors retains the authority to redeem that equity or not. Thank you.

Sally Lovell
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Port Townsend, WA